



REPORT BY THE
DEPARTMENT OF FISH & GAME
AUDITS BRANCH

WA-08-08

AUDIT OF THE
NORTHERN REGION
(LICENSE SALES FUNCTION)

AUGUST 2009

State of California

Memorandum

To: G. Stacey, Regional Manager
Northern Region

Date: August 28, 2009

From: Brian A. Kwake
Department of Fish and Game

Audit Control Number
WA-08-08

Subject: Final Audit Report - Northern Region's License Sales Function

Attached is the final audit report for the Northern Region's (NR) license sales function for the period January 1, 2007 through June 30, 2009. The audit was conducted under the authority of the Audit Branch's (AB) charter that established the AB as the unit responsible for conducting audits of the operating systems and programs of the Department of Fish and Game. The audit was performed in accordance with the *International Standards for the Professional Practice of Internal Auditing* as required by the California Government Code, Section 1236.

NR's response to the report generally agrees with our audit findings and recommendations. The Audits Branch (AB) incorporated the NR's response as Attachment A to this report.

We would like to thank the NR staff for their time and cooperation. Should you have any questions, please contact Scott Marengo at (916) 445-3367.

Attachment

cc: J. McCamman
H. Carriker
C. Jones
J. Fong
S. Stewart
S. Moug

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SUMMARY

The Department of Fish and Game's (DFG) Audits Branch (AB) performed an audit of the Northern Region's (NR) license sales function. The audit was conducted to determine whether controls over the license sales function were adequate to ensure sales transactions were properly recorded, reported, and sales revenue was deposited, and whether the internal controls were adequate to ensure accountability for its consigned inventories of licenses, permits, tags, and stamps. The audit found the internal control structure over the license sales and inventory functions to be adequate, except for inadequate separation of duties, safeguarding of state assets and cash register controls.

FOLLOW-UP ON PRIOR AUDIT FINDINGS

On April 13, 2007, the AB issued audit report number WA 06-13 on NR's license sales function. We followed-up on the finding in this report to determine if the prior finding had been fully resolved. This finding related to inadequate separation of duties at the NR-Eureka Office. Based on our follow-up, we determined that this problem still persists due to a shortage of staff at the NR-Eureka Office.

BACKGROUND

The DFG has 11 regional and field offices that offer license sales to the public. The License and Revenue Branch (LRB) sales manual provides the DFG offices instruction on license issuance, deposit, accounting, cashiering, and reporting requirements. The License Agent System (LAS) provides a method of accounting for the sale of various licenses, permits, stamps, and other items distributed by the LRB. Part of this LAS function is the actual distribution of the various items of inventory maintained by the LRB.

Under the authority of the AB charter, the AB has initiated audits of the DFG's license sales at the 11 regional and field offices in order to provide management reasonable, but not absolute, assurance that the DFG offices are in compliance with laws relating to the sale of commercial and sport licenses. As part of this process, the NR was selected for audit.

SCOPE, METHODOLOGY, AND OBJECTIVES

The DFG's AB audited the NR's license sales function for the period January 1, 2007 through June 30, 2009. Our audit was conducted in accordance with *Governmental Auditing Standards* issued by the Comptroller General of the United States and the *International Standards for the Professional Practice of Internal Auditing* issued by the Institute of Internal Auditors, Inc.

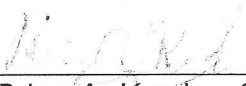
Our study and evaluation included a review of applicable laws and regulations, as well as regional sales and inventory records. Audit tests and other audit procedures considered necessary to meet audit objectives were included. These tests consisted of documenting the cash and inventory internal controls, identifying control strengths and weaknesses, performing compliance testing of the license sales functions, verifying inventories, documenting and evaluating adequate separation of duties.

The objectives of the audit were to provide DFG's management with reasonable, but not absolute, assurance that:

- Controls over the license sales functions were adequate to ensure that sales transactions were properly authorized, supported, recorded, and deposited.
- Controls were adequate to ensure accountability of inventories assigned to the office and inventories consigned to the individual sales clerks.

CONCLUSION

In our opinion, the NR has properly recorded, deposited, reported license revenue, and accounted for inventory valued at \$3,529,993.25 (Redding Office) and \$2,972,992.75 (Eureka Office) for the period January 1, 2007 through June 30, 2009. The internal control structure over cash receipts and inventory at the NR in effect at June 30, 2009, taken as a whole, was sufficient to meet the objectives stated above insofar as those objectives pertain to the prevention or detection of errors or irregularities in amounts that would be material in relation to the license sales inventory, except for the weakness described in the Findings and Recommendations Section of this audit report.



Brian A. Kwake, Chief
Audits Branch

August 28, 2009

Audit Staff: Scott Marengo, Auditor

FINDINGS

AND

RECOMMENDATIONS

FINDING 1 INADEQUATE SEPARATION OF DUTIES

We observed the NR-Eureka Office Supervising Program Technician will occasionally sell licenses, make the deposit, and order license inventory. Additionally, incoming checks which arrive at the NR – Redding Office are first received by the NR secretary and then transferred over to one of the front counter sales staff. However, the NR does not maintain a log documenting the transfer of these checks from the NR secretary to the front counter sales staff person. This person who receives these checks is then responsible for processing the applications and mailing the licenses back to the license applicants.

The State Administrative Manual (SAM) Section 8080 requires each department maintain an adequate system of internal control which includes separation of duties.

The NR-Eureka Office is short-staffed and has difficulty maintaining adequate separation of duties. However, without proper separation of duties, DFG is at increased risk that errors or irregularities could go undetected, therefore putting State assets at risk.

RECOMMENDATION

The NR-Eureka Office should separate these key functions to be in compliance with SAM. The NR-Redding Office should establish a log to better document the transfer of checks from the NR secretary to the front counter sales staff.

NR Response: As a rule, Ms. Moug will not sell licenses but will keep a minimal amount of inventory issued to her in case of emergency. The ELSU will solicit backup help from the Fisheries Program and continue to use the support of a Timber harvest Program employee who currently helps out as she is available.

On July 1, 2009, the Redding office implemented a process whereby the NR Secretary logs all check and credit card mail for RLSU into a database prior to delivering that mail to the RLSU. RLSU staff then process the mail and initial and date the log when the items are mailed.

AB Comments: We concur with the NR response. We further recommend that a different RLSU person process the license sale transactions from the RLSU person initially receiving the checks from the NR Secretary. The log should also contain the names of both RLSU staff who received and processed the checks.

FINDING 2 INADEQUATE SAFEGUARDING OF STATE ASSETS

The NR does not properly account for the sale of Cal-tip hats sold at the front counter. Cal-tip hat sales are done manually and not processed through the cash register or included in the daily deposits. These monies are then kept in the safe until the NR front counter supervisor requests additional hats from the vendor. During our review, we noted \$498.09 and \$1,123.65, respectively, of cash still being retained in the safes at both the NR-Eureka and Redding Offices.

The SAM Section 8080 specifies an internal control system be established to ensure state assets are safeguarded.

The NR did not know how to properly account for these funds. Inadequate controls over these monies could result in the loss or theft of the State's assets.

RECOMMENDATION

We recommend Cal-tip hat sales be deposited along with other sales collections and that the NR establish a separate account to pay for the Cal-tip hat invoices through the regular State procurement process.

NR Response: The Eureka and Redding offices will open a Cal-TIP bank account under DFG and make deposits in accordance with SAM Section 8032.1 starting no later than October 1, 2009.

AB Comments: We concur with the NR response.

FINDING 3 INADEQUATE CASH REGISTER CONTROLS

We noted 3 instances during the April 2009 reporting period where license sales done by one clerk were accidentally sold under another clerk's identification number. On April 1, 2009, Clerk "CS" accidentally sold \$416 on the cash register under the name of "JE"; on April 7, 2009, Clerk "CS" sold \$181.25 on the cash register under the name of "MD"; and on April 28, 2009, Clerk "JE" sold \$274.75 on the cash register under "MD"; and on the same day, Clerk "MD" sold \$985.50 on the cash register under "JE".

The California Government Code, Section 13402, requires a satisfactory system of internal accounting and administrative controls include a method

to limit access to State assets to only authorized personnel. Further, the SAM, Section 8080, specifies an internal control system be established to ensure assets are safeguarded. Lastly, The DFG *Cash Register and Cash Transfer Policies and Procedures* section on System Integrity, on pages 1-2, states that all staff using the cash register system are responsible for following the established procedures to maintain the integrity and security of the system.

Without proper internal controls to ensure the security and separation of each cash register clerk's identification, the assets are placed at increased risk of theft or defalcation.

RECOMMENDATION

NR needs to develop procedures to ensure that license sales by one clerk are not accidentally recorded into the cash register as another clerk's.

NR Response: Cash register log on/off procedures in the Redding office are already in place. CSR's will be reminded of the procedure, shown the consequence of not adhering to this procedure, and reiterate the seriousness of simply not paying attention.

AB Comments: We concur with the NR response.

ATTACHMENT A

Memorandum

Date: August 10, 2009

To: Brian Kwake, Chief
Audits Branch
Department of Fish and Game

From: 
GARY B. STACEY, Regional Manager
Northern Region
Department of Fish and Game

Subject: **Response to WA-08-08, Audit of the Northern Region**

The Northern Region (NR) has received Audit Report WA-08-08 from the audit of the NR license sales function for the period of January 1, 2007 through June 30, 2009. Our response and corrective actions are as follows:

Finding 1: Inadequate Separation of Duties

Eureka office: The Supervising Program Technician (SPT) occasionally sells licenses, makes the deposit, and orders license inventory.

Cause: The Eureka license sales unit (ELSU) employs three full time staff (two Program Technicians and one SPT) and one Seasonal Clerk. Seasonal clerks are limited to working 194 days and 1500 hours per year which restricts the amount of staff we have access to during unplanned events such as sickness or even some planned events such as vacation. Because of this lack of available staff, and because of our dedication to DFG customers, the SPT (Stephanie Moug) sometimes has to sell licenses. Ms. Moug's main License Sale Unit duties are to supervise the customer service reps (CSR's), issue inventory, and make the daily deposits.

Corrective action: As a rule, Ms. Moug will not sell licenses but will keep a minimal amount of inventory issued to her in case of emergency. The ELSU will solicit back-up help from the Fisheries Program and continue to use the support of a Timber Harvest Program employee who currently helps out as she is available.

Redding office: The Redding office does not keep a log of checks and credit card mail being transferred from the NR Secretary to the Redding license sales unit (RLSU).

Corrective action: On July 1, 2009, the Redding office implemented a process (attached) whereby the NR Secretary logs all check and credit card mail for RLSU into a database prior to delivering that mail to the RLSU. RLSU staff then process the mail and initial and date the log when the items are mailed.

Brian Kwake, Chief
August 10, 2009
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Finding 2: Inadequate Safeguarding of State Assets

NR-Eureka and Redding Offices: The NR does not properly account for the sale of Cal-TIP hats (monies) sold at the front counter.

Corrective action: The Eureka and Redding offices will open a Cal-TIP bank account under DFG and make deposits in accordance with SAM Section 8032.1 starting no later than October 1, 2009. A detailed policy and procedure will be implemented, documented, and forwarded to appropriate staff and the Audits Branch.

Finding 3: Inadequate Cash Register Controls

Redding Office: It was noted that during the April 2009 sales period, there were three instances where license sales made by one clerk were accidentally sold under another clerk's identification number (ID).

Cause: The above inadequate cash register controls is caused by a CSR not clearing their ID off the register when going on a break and the CSR coming on to duty has not checked to make sure the register screen is clear before logging on.

Corrective action: Cash register log on/off procedures in the Redding office are already in place. CSR's will be reminded of the procedure, shown the consequence of not adhering to this procedure (audit findings), and reiterate the seriousness of simply not paying attention. The Administrative Officer will run *exception reports* (if one clerk sold on another's clerk's ID, this report will show it) at least three times during the day for up to three months to assure the CSR's understand and are obeying the procedure.

Attachment

cc: Dept. of Fish and Game, Northern Region
Shannon Stewart, Administrative Services Program Manager
Diane Smith, Administrative Officer
Stephanie Moug, Supervising Program Technician
601 Locust Street
Redding, CA 96001

Department of Fish and Game, Audits Branch
Scott Marengo, Associate Management Auditor
1416 Ninth Street
Sacramento, CA 95814

Redding License Sales Unit (RLSU) In-coming Mail Procedures

1. Incoming mail for the RLSU will be date stamped on the date received by Secretary, Peggy Mattingly.
2. Using the current database, and on the same day the mail is received, Peggy Mattingly or a designee will enter the following information into the "Rdg Mail Log" found at W:\ADMIN\License Sales\LSU Mail Processing:
 - i. Date received
 - ii. Customer name
 - iii. Delivery address
 - iv. Check # or last 4 digits of a credit card #
 - v. Dollar amount received
 - vi. Item(s) being ordered
3. The mail will then be delivered to the RLSU on the same day it is received and will be processed by a designated clerk within two (2) business days after receipt.
4. Mail is to be processed within three (3) days of date stamp. The processing clerk will verify the information entered in the database for accuracy and then type the date and their initials and, if necessary, any notations when the mail has been processed.